

For: State and County Offices, CMA's, LSA's, and Cotton Clerks

Cotton Marketing Assistance Loan (MAL) Provisions Starting With 2006-Crop

Approved by: Deputy Administrator, Farm Programs



1 Overview

A Background

Several changes have been implemented for the cotton MAL program effective with the 2006-crop. These changes were announced August 29, 2006, and published in FR on August 30, 2006.

B Purpose

This notice summarizes MAL program changes and instructs County Offices to use and distribute revised CCC-601's and CCC-605's in processing 2006-crop MAL's.

C Contact

State Offices shall direct questions about this notice to Gene Rosera by:

- e-mail to gene.rosera@wdc.usda.gov
- telephone at 202-720-8481.

2 New Program Provisions

A Outside Storage of Loan Cotton

CCC will allow cotton pledged for MAL to be stored outside, subject to special warehouse:

- receipting
- storing
- reporting
- insurance requirements
- approval by CCC.

Disposal Date	Distribution
January 1, 2007	State Offices; State Offices relay to County Offices, CMA's, LSA's, and cotton clerks

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2 New Program Provisions (Continued)

A Outside Storage of Loan Cotton (Continued)

For approval, any applying warehouse **must**:

- be in an area that CCC determines as **not** having adequate approved indoor capacity to store the current crop
- enter the dates of outside storage on the electronic warehouse receipts (EWR).

Note: Warehouse and provider software will have to be amended for EWR's.

Because of estimated reductions in the crop from last year, outside storage of MAL cotton is **not** expected to be needed for 2006-crop cotton.

B Storage Credits Not Paid for Outside-Stored Loan Cotton

CCC will **not** provide storage credits to upland cotton MAL collateral for any period that it is stored outside subject to a 15-calendar-day grace period. CCC will consider outside storage to begin at a warehouse on the 16th day following the day the warehouse was notified that the bale has been pledged as collateral for MAL.

Additional information will be provided in a future notice.

C Storage Credit Rates Capped

CCC's maximum storage credit rate for the 2006 and subsequent crops of upland cotton will be the lesser of the following:

- 2005-crop tariff rate for the warehouse
- \$4.37 per bale per month for warehouses located in Arizona and California
- \$2.66 per bale per month for warehouses located in all other cotton-producing States.

Warehouse tariff rates remain unregulated by CCC and may exceed the rate used by CCC for calculating storage credits. Therefore, buyers may have to pay some storage charges exceeding the credit CCC provides.

2 New Program Provisions (Continued)

D Bale Eligibility Requirements

The rule establishes 2 new quality requirements for cotton to be eligible for MAL. To be eligible for MAL, cotton **must**:

- be in good condition

Note: Good condition is defined by regulation as cotton that, by comparison with the photographic standards of the Joint Cotton Industry Bale Packaging Committee, is determined to be Grade A or Grade B.

- not be wet.

Note: Wet is defined by regulation as a cotton bale that, at a gin, exceeds 7.5 percent moisture at any point in the bale.

County Offices need to inform producers of these new quality requirements but have **no** role in enforcing these quality requirements. These quality requirements are improved enforcement tools for use primarily by warehouse examiners.

E Transfer of Cotton Loan Collateral

The revised regulation provides 2 new and important definitions to distinguish a transfer from a reconcentration. The **meaning** of these terms for defining cotton transactions has **changed** from prior use.

Transfer means the movement of cotton loan collateral from 1 warehouse to another. Producers or their agents will be responsible for **all** charges associated with transfers, regardless of the circumstances.

Reconcentration means the movement of CCC-owned inventory. CCC will pay **all** charges associated with reconcentrations.

A software transfer process is under development. Transfers will be available starting with 2006-crop MAL collateral. Applications will **not** be approved until availability of the software. Instructions will be provided at a later date to describe provisions of the transfer process.

As currently envisioned, transfers of loan cotton will occur:

- without cancellation of the original warehouse receipt
- **only** if approved within 30 calendar days from loan maturity
- based on charges at the original warehouse
- **only** if requested or authorized by a producer or a producer's agent.

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2 New Program Provisions (Continued)

E Transfer of Cotton Loan Collateral (Continued)

Note: Applicants for cotton MAL should be reminded of the revised CCC-605 that contains a separate authorization by which a producer authorizes their agent to transfer loan cotton. **Only** CCC-605, Section G/H will be accepted as a producer's authorization to transfer loan cotton.

Storage credits for transferred cotton will be provided up to the date of redemption if DACO determines that the shipping warehouse is:

- out-of-compliance with its Cotton Storage Agreement
- storing cotton outside (any cotton, **not** necessarily the cotton requested for transfer)
- under same ownership as the receiving warehouse.

For all other transfers, storage credits will be limited to 75 calendar days starting from the date of transfer. Any excessive credits provided will be billed to the producer. Under the transfer process being developed, all County Offices, CMA's, and LSA's that process cotton MAL's will be advised of any transfers affecting their MAL's. MAL repayments for transferred cotton will be made under current procedures except that some collections of over-paid storage charges could occur.

F Producer Liability for Unpaid Charges

CCC will bill producers for any unpaid warehouse compression fees or other unpaid charges for forfeited cotton, starting with 2006-crop forfeitures. This new provision will be consistent with CCC loan policy that loan collateral must be unencumbered by liens or unpaid charges.

3 Action

A County Office Action

County Offices shall provide copies of the fact sheet, titled: "New Provisions for Cotton Marketing Assistance Loan Program" to loan applicants. Use the following for all new 2006-crop cotton MAL's:

- **CCC-601 (version 8/29/06)** or later: see Item 10d about storage credit for cotton stored outside and for producer payment of warehouse compression charges applicable to forfeited cotton, and Item 10e for provisions about transfers of loan cotton
- **CCC-605 (version 8/18/06)** or later: new parts G and H to be used by producers to authorize agents to transfer loan cotton; although CCC-605 is **not** completed by County Offices, producers should be made aware of new Parts G and H.